

INDUSTRIAL LAW

INDUSTRIAL SECRETS : A LEGAL PROFILE

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“The maintenance of secrecy which plays such an important part in securing to the owner of an invention the uninterrupted proprietorship of marketable know-how, which thus remains at least a form of property, is enforceable at law.”

In the course of manufacture of various articles, the industrialist has often to face questions of a legal character as to how far he can insist on protection of the secrecy of the industrial process. Some misconceptions appear to exist as to the legal position on the subject. It is commonly assumed, though wrongly, that if a particular process or idea is not patented or registered, then its secrecy is not legally enforceable. This misconception is found to prevail even amongst some lawyers. It is not adequately realised that the sources of law in our legal system are not merely statutory provisions. A rule may find recognition in the legal system, even though it is not specifically enacted in an Act of the Legislature. To put it differently, some rules which are enforceable in the courts derive their source from uncodified doctrines, rather than from statute. The obligation to preserve confidences is one of them, even though there may not be specific statutory provision imposing such an obligation.

Unauthorised Disclosure

The position is clear if one remembers that in certain circumstances, a person in whom confidence is reposed by another person can be legally prevented from unauthorisedly disclosing that information to another, or from making use of it. The precise question, of course, would be in what circumstances is such an obligation legally enforceable? One cannot give a one-line answer to this question; but one can enumerate specific situations where a legal obligation to preserve confidences is recognised. Thus, a doctor who treats a patient is bound to preserve the confidence and not to reveal information obtained by him regarding the patient's health and past history. Similarly, a husband who has come to know many matters concerning his wife's past life and behaviour may (if the marriage breaks down) be legally restrained from making public what he learnt in private. Precisely this situation was involved in a litigation involving a member of the English aristocracy. Which was decided a few years ago. The court in that case issued an injunction restraining the husband as above. Similarly, a lawyer is not permitted to make known to the outside world information imparted to him by his client for professional purposes. In all these circumstances, the legal obligation to preserve the confidence arises from uncodified rules, and not from statutes. The source of the legal obligation in such cases is either

contract or some doctrine of equity. [**John Brady v. Chemical Process Equipment, (1987) 13 Ind. Jud. Rep. (Del.) 739 (November 16, 1987).**] (AIR 1987 Del 372)

Industries

The matter may be examined in greater detail in the context of industries. More than once, courts have recognised that an employee who has acquired knowledge of some secret industrial processes in the course of employment may be legally restrained from divulging that secret. Thus, in a case decided in 1913 (*Amber Size Co. v. Menzel*), an injunction was granted by the court, restraining a dismissed employee from making use of information regarding a secret process of manufacture. The employee had obtained this information in the course of his employment with the plaintiff. The plaintiff desired to prevent the information from being used for the benefit of a rival. The plaintiff succeeded in getting an injunction from the court. Again, in a case decided more recently in 1972 (*Amsell Rubber Co. v. Allied Rubber Industries*), a person, while in employment, had made measurements of the roofing machine and had spent a great deal of time in acquiring detailed information. Later, he left the employment and used the knowledge so acquired for constructing the defendant's machine on the basis of the drawings earlier prepared. The court held that there was an implied contract between the employee and his earlier employer, that the employee would keep the designs secret. The court ordered the defendant company (which had notice of the breach of contract by the employee) not to use those designs and drawings for its own purpose. Machines already constructed (except those parts which were manufactured on defendant's own design, were ordered to be delivered up to the plaintiff.

Cases relating to drawings

The essence of this branch of the law is that a person who has obtained information in confidence is not allowed to use that information as a "springboard" for the purpose of activities detrimental to the person who made the confidential communication. The recipient of such information must be placed under a disability against using the information (*Terrapin Ltd. v. Builders Supply Co.*). The most well-known case applying this doctrine is that of *Saltman Engineering Co. v. Campbell Engineering Co.* 1948. In that case, certain drawings were entrusted by the plaintiff to the defendant, for the purpose of manufacturing tools for making leather punches. The defendants made use of the drawings in order to make leather punches on their own account. The court held such use to be illegal. As the plaintiff had not given his consent to such use, he was entitled to an injunction.

The law recognises the principle that a confidential obligation does not terminate automatically on the termination of the main contract, nor is it confined to the relationship of employment. If two persons make a contract under which one of the persons obtains, (for the purposes of the contract or in connection with the contract.) some confidential material, it is an implied term of the contract that he can use that information only for the purpose for which it was entrusted. The principle will apply even if the same information could have been obtained by the defendant if he himself

had made the intellectual effort. Thus, take a case where a person imparts, under contract, confidential information to the effect that some important component should be made of aluminium rather than steel in order to achieve success. The recipient of the information must not use it for any unauthorised purpose. This is so, even if the recipient himself, by spending efforts and energy, might have acquired the same knowledge. The principle here is, that the information held the special quality of information imparted in circumstances implying an obligation of confidence; therefore, the law will not permit its unauthorised use. "He cannot build his superstructure as long as he is forbidden to use the foundation". **Coco v. A.N. Clark (Engineers), (1969).**

A Delhi case

A Delhi case, reported recently, is of interest. [**John Richard Brady v. Chemical process Equipment, (1987) 13 Ind. Jud. Reports (Del.) 739** - issue dated 16 November, 1987. The plaintiff imparted know-how to the defendants (also giving certain drawings and other technical documents). This gave rise to a confidential relationship. The court issued injunction (during trial) to prevent abuse. It was found that defendant's machine was strikingly similar to drawings given by the plaintiff. The Delhi High Court quoted the following passage from Patrick Heirn [Business of Industrial Licence pages 112-115] :-

"The maintenance of secrecy which plays such an important part in securing to the owner of an invention the uninterrupted proprietorship of marketable know-how, which thus remains at least a form of property, is enforceable at law."

Label not necessary

It is not necessary that the label "confidential" should be expressly attached to a particular process, design, document or information. Circumstances of the case may imply confidence. This is illustrated in a litigation of 1968. A French company had developed equipment for cleaning the under-water hull of a ship without dry docking. From this French company, the plaintiff acquired a concession for the use of the equipment. The plaintiff then engaged Longthorne as a diver, and disclosed to him the process in confidence. Longthorne entered into restrictive covenant also. Thereafter, the plaintiff engaged Street and disclosed the process to him in confidence. As between the plaintiff and the French company, a formal agreement was made under which the plaintiff undertook to respect the confidential nature of the process. Street was involved in negotiating the agreement for the plaintiff as the managing director of the plaintiff. Street himself did not sign any restrictive covenant. After about a year, both Street and Longthorne fell out with the plaintiff, left the plaintiff's employment and took employment with a rival company, with a view to setting up a division to carry on the business of under-water cleaning of ships. The plaintiff thereupon sued Street and Longthorne to restrain them from using the information regarding the French process. The court held that the documents in the case showed that the process had confidential character and Street was fully aware of that. Even though Street himself had not entered into a restrictive covenant with

the plaintiff, the circumstances implied an obligation of confidence on his part. As regards Longthorne, he had entered into an express covenant not to use or disclose the information. Accordingly, the plaintiff was granted an injunction against both of them, as prayed.

Cases of Entrustment

One more case would show that the obligation of confidence may arise apart from the employer-employee relationship. Thus, in the case of *Printers and Finishers Ltd. v. Holloway* (1964) a secret flock printing process was involved. This was used by the plaintiff company in its factory. The plaintiff was operating the process under licence from an American company and had stipulated with the American company that its details would be kept secret. Holloway, the defendant, had been expressly instructed by the plaintiff company to preserve its secrecy. He left the plaintiff's employment, but took certain documents and materials in his hands. He then sought to place this documentary information at the disposal of a rival of the plaintiff's company. The Court enjoined him from doing so.

Position Regarding know how

In the judicial controversies summarised in the preceding paragraphs, legal relief was available because information had been imparted by the possessor of the information to the recipient on an express or implied condition of secrecy. Difficulties do arise where an employee comes to acquire what is often described as "know-how", apart from trade secrets or industrial secrets. Usually, the courts seem to make a distinction between "secrets" and "know-how". As distinguished from secret and confidential information, "know-how" indicates the way in which a skilled man does his job and is an expression of his individual skill and experience. [Lord Evershed in *Stevenson Jordan & Harrison v. McDonald and Evans*, (1952)]. A servant cannot help acquiring a great deal of knowledge of his master's method of business and of the science which his master practises. The servant, when he leaves the employment, cannot be restrained from using the knowledge so acquired, so long as he does not take away secrets of lists of customers. [*Stevenson Jordan & Harrison v. Mc.Donald and Evans* (1952)]. Because of this principle, courts are reluctant to restrain the use (by an ex-employee) of the know-how acquired by him in the ordinary course of his work with the ex-employer, unless the situation is one of trade or industrial secret based on information acquired under an obligation of confidence. Thus, in a case decided in 1965 (*Commercial Plastics v. Wincent*), the defendant had, as an ex-employee of the plaintiff, gained much skill and aptitude and general technical knowledge with regard to the production of PVC calendared sheeting in general, and particularly production of such sheeting and adhesive tape. The court refused to grant an injunction preventing the defendant from using the skill, aptitude and knowledge in competition with the plaintiff after leaving the plaintiff's employment. "Such things have become part of himself, and he cannot be restrained from taking them away and using them". [*G.D.Searle & Co. v. Collteck*, (1982)]. Thus, if a servant does not take away with him trade or industrial secrets, he cannot be prevented from using the knowledge and skill acquired by

him in his past employment.

The position will be different if he is made to enter into an express covenant with the employer for the purpose; but in such cases, care has to be taken in drafting the covenant. The reason is that the law does not recognise a covenant which imposes a restriction which is unreasonable, in the circumstances of the case.

It was stated at the outset in this article that some misconceptions prevail as to the obligation of confidence in the sphere of trade and industry. It is hoped that the salient points summarised above will clarify the position.